



Department of Revenue  
Property Tax Division

AGRICULTURAL PROPERTY MANUAL

Chapter 2  
**Qualification Requirements  
and Classification Criteria**  
Issued: January 1, 2004

# CHAPTER 2

# QUALIFICATION REQUIREMENTS AND CLASSIFICATION CRITERIA



## **AGRICULTURAL PROPERTY QUALIFICATION**

Qualified agricultural property is real property which meets one or more of the criteria specified in A.R.S. § 42-12151. Agricultural land must currently be in use to produce crops or livestock, or must be devoted to a high-density use in producing commodities, or must be used in the processing of various specified commodities. The land must also meet the following criteria, which are fully specified in A.R.S. § 42-12152:

1. Its primary use is a qualifying agricultural use and the land must have been in active production for at least seven of the past ten years prior to application. An agricultural operation on land which has not been used for agricultural purposes for seven of the past ten years may not qualify, even though its current use is agricultural. Such land may qualify for agricultural use classification status after seven years of active production, if it meets all of the other criteria. Qualified land may have been inactive due to several acceptable reasons pursuant to A.R.S. § 42-12152, or it may be a "nonconforming" property according to A.R.S. § 42-12154. See Exceptions, page 2.9.
2. Any noncontiguous parcels must be managed and operated on a unitary basis along with the rest of the overall agricultural operation, with each parcel making a functional contribution to the whole agricultural operation.
3. There must be a reasonable expectation of the agricultural operation generating an operating profit, exclusive of land cost, from the agricultural use of the property. Some of the considerations for a "reasonable expectation of operating profit" (also called "economic feasibility") as provided in A.R.S. § 42-12152, are listed below:
  - Is the agricultural activity conducted in a businesslike manner?
  - What is the expertise of those involved in the agricultural activity?
  - How much time and effort is being expended in carrying on the agricultural activity?
  - Do those involved have prior success in other similar agricultural activities?
  - What is the history of operating profits or losses for this agricultural activity?



- What amount of operating profit, if any, has been earned?
- Are the agricultural activities engaged in for personal pleasure or recreation, (i.e, is it a hobby farm?).

Questions like these emphasize that the County Assessor must look at all aspects of any agricultural operation for economic feasibility, especially when making the initial determination of whether or not to approve an agricultural classification application and to apply the statutory income capitalization valuation procedure to value the land.

**Property Inspections.** Pursuant to A.R.S. § 42-12158, the County Assessors are required to make an on-site inspection of twenty-five percent of the agricultural land in their county each year, so that all of these properties are visited and appraised within every four years. The inspections may also assist the Assessors by increasing the amount and accuracy of the lease data gathered, and may assist in creating and maintaining good working relationships with the property owners in their jurisdictions.

## **OBTAINING AGRICULTURAL USE CLASSIFICATION**

To obtain qualified agricultural use classification status, the land must have been actively engaged, for seven of the past ten years (with exceptions - see A.R.S. § 42-12154), in the production of agricultural crops or commodities of sufficient quantity to be economically feasible. Also, the use of the land must meet one or more of the statutory requirements specified under A.R.S. § 42-12151:

### **1. Cropland.**

- A. Permanent crops.** These are plants, vines or trees which produce a seasonal or annual crop and that are perennial by nature (rather than row or field crops, which are planted and harvested on a scheduled rotation). Permanent crops must have an aggregate of ten or more gross acres. They usually require several years to reach maturity before the plants or trees begin producing a marketable harvest.



Examples of permanent crops include fruit trees (such as apples or peaches), citrus trees (such as oranges or grapefruit), nut trees (such as pecans), grapevines, date trees, olives, jojoba shrubs and Christmas trees. Permanent crops are considered to be improvements on the land. See Chapter 4, Valuation and Appendix C.

**B. Seasonal crops.** This category includes the majority of farm parcels in most agricultural operations. Cropland, to qualify for statutory valuation as agricultural land, must consist of at least twenty gross acres. The land is cultivated to produce mainly row or field crops, which are planted and harvested on a scheduled rotation. Crops include those that are harvested once a year (such as cotton), those with a short growing time (such as green onions), or crops where the product is harvested, but the root system remains intact to produce another harvest (such as hay, alfalfa, or asparagus).

## 2. Grazing land.

**A. Irrigated Pasture.** Land used for irrigated pasture that is of sufficient quantity and nourishment to support livestock without supplemental feeding. Irrigated pasture is valued in the same manner as other cropland in the same district or productivity zone. If the pasture cannot support the livestock, and substantial supplemental feeding is required for maintenance, the land should be valued as high-density.

**B. Natural grazing.** For property tax valuation and assessment purposes, grazing land means ranch land that is used primarily for grazing livestock, where large, uncultivated acreage and natural precipitation provide natural forage to livestock. The land must have a minimum carrying capacity of forty animal units and contain an economically feasible number of animal units.

**Note:** The carrying capacity of rangeland cannot be expressed as a fixed number. A quote from the report "Assessment of U.S. Forest Service Methods for Determining Livestock Grazing Capacity on National Forests in Arizona" (2001), states, "Grazing capacity for livestock (or



proper stocking rate) is not an intrinsic biological characteristic of an ecosystem that can be directly measured.

"Grazing capacity is a function of the kind and amount of vegetation produced on the range, topographic characteristics of the landscape, and availability of water resources. The amount of money and time spent on regulating and managing livestock use (e.g., fences, water developments, trails, herding) has major effects on the grazing capacity."

Appendix A, titled "Carrying Capacity of Rangeland in Arizona," contains tables for the average carrying capacity of grazing land for cattle in different townships in Arizona's counties. The tables were created in 1967 by Mr. N. Gene Wright of the Department of Agricultural Economics, at the University of Arizona. Research performed in 2002 verified that the data is still generally valid. However, these tables should **only** be used as a starting point to determine whether or not a property might support the minimum carrying capacity of forty animal units. The tables do not, by themselves, establish economic feasibility and they should not be relied on without an on-site inspection of the land.

### 3. High-density use.

**A. General high-density use.** High-density agricultural use is defined as the intensive use of a relatively small area of land for the production of a high-yield crop or commodity, wherein comparatively large amounts of labor and capital are required per unit of land. There is no minimum acreage requirement for this classification. Structural improvements and personal property frequently make up a substantial part of the overall value. That is, the value of structural improvements, such as cotton gins, greenhouses or packing facilities and the personal property in, or used with them, is often greater than the value of the land on which the improvements are situated.

Examples of high-density agricultural crop land uses include growing:

- Flowers.
- Ornamental plants.
- Rose bushes.



- Trees (other than standing timber). Examples are Christmas trees and landscape trees.
- Intensively produced fruits and vegetables, such as tomatoes grown in hydroponic gardens and greenhouses.

Examples of activities that are engaged in for the purpose of raising and breeding animals, or for producing commodities from them, which require the intensive use of agricultural land include:

- Beekeeping.
- Breeding selective livestock (other than as a part of a ranching operation) such as registered horses or bovines.

**Note:** Land primarily used for boarding or training horses or other animals, or for breeding animals for pet or recreational use, shall be considered to be commercial property, and is classified as Legal Class One. Those areas and improvements used to display the animals (show rings) or which have associated uses (i.e., corrals, pens, barns, exercise areas) will also be classified as commercially used property.

- Raising animals and poultry in a controlled environment for meat production.
- Raising animals and poultry in a controlled environment for milk, milk products or eggs.
- Raising aquatic animals as a product in a controlled environment.
- Raising fur-bearing animals in a controlled environment for fur.

Irrigated acreage or former cropland used for grazing may require high-density valuation if supplemental feeding of the animals is required.



- B. Land and improvements devoted to use in processing cotton necessary for marketing.** Land that is utilized for ginning cotton shall be valued as high-density agricultural land. Cotton ginning equipment and buildings will be considered to be agricultural property. The storage of cotton on the gin site for a period of twenty-one days or less (a normal industry standard) is considered to be an agricultural use, occurring in conjunction with the gin.

Warehousing of the ginned cotton (which is storage for more than twenty-one days, or long-term storage off the gin site) is not an act of processing cotton necessary for marketing. Therefore, land and buildings that are used to warehouse cotton are considered to be commercial property and are classified as Legal Class One. Land and buildings that are used for the further processing of the cotton (or of any by-products, such as seeds) following ginning should also be considered commercial property. This difference in legal classification will result in a mixed-use assessment ratio for the total property.

- C. Land and improvements devoted to use in processing wine grapes for marketing.** For only those grapes that are grown specifically for wine making, processing includes washing, grading, sorting, packing, and the initial extraction of the juice through the bulk fermentation process. Land and improvements that are used for all applicable procedures are to be classified as having a high-density agricultural use. Land and improvements that are used for these purposes are classified as Legal Class Two, Subclass One(R)(b). However, any property that is used for bottling, wine tasting, retail sales, storage or warehousing of the finished products shall be considered to be commercial property and is classified as Legal Class One. This difference in legal classification will result in a mixed-use assessment ratio for the total property.



**D. Land and improvements devoted to use in the processing of citrus for marketing.** A.R.S. § 3-441(3) defines "citrus" as the fruit of any orange, lemon, lime, grapefruit, tangerine, kumquat or other citrus tree which produces edible citrus fruit suitable for human consumption. Processing citrus is considered to be the initial series of operations performed in the treatment of the citrus to enable it to be marketed after harvest. For citrus that is being used solely for juice, the process would include the procedure of converting the solid citrus fruit into bulk juice.

Processing, however, does not include any further treatment after the first sale, such as bottling or any other commercial treatment that may be performed at a distribution center, or for retail sales.

For citrus that is to be used for table fruit, the process would include washing, sorting, grading and packing, but **not** juicing. Land, buildings and equipment that are used for any purpose other than the direct processing of citrus for marketing are considered to be commercial property and are classified as Legal Class One. This includes warehouses, cooling and refrigeration facilities, and loading docks. These differences in legal classification will result in a mixed-use assessment ratio for the total property.

**E. Land and improvements devoted to use as fruit or vegetable commodity packing plants.** A fruit or vegetable commodity packing plant is considered to be the land, buildings, and equipment used in the process of taking fruit or vegetables from the tree or field and placing them in a box or container for sale and shipment to a reseller or an ultimate consumer. Qualifying examples of processing include washing, grading, sorting, wrapping and packing vegetables and fruit, so long as no cutting or other physical alteration of the produce occurs. If there is any cutting or other physical alteration of the fruit or vegetables, the land and improvements used for those purposes may not be classified as agricultural property, but are considered to be Legal Class One property. Physical alteration includes peeling,





chopping, waxing, applying a coating, or any other process that changes the fruit or vegetable from its natural condition as harvested. This difference in legal classification will result in a mixed-use assessment ratio for the total property.

**F. Land and improvements that are owned by a dairy cooperative.** A dairy cooperative includes land and facilities that are devoted to a high-density use in producing, transporting, receiving, processing, storing, marketing and selling milk and manufactured milk products without the presence of any animal units on the land (i.e., this excludes an actual dairy farm operation).

Land that is used for the processing of any agricultural commodities that are not specified in statute is excluded from qualified agricultural status. That land will then be considered to have a commercial use and will be classified as Legal Class One. In all cases where the land, buildings and equipment associated with agriculturally used property incorporates multiple uses, refer to the Arizona Department of Revenue's Assessment Procedures Manual for instruction on determining mixed-use percentages.

## **EXCEPTIONS**

Pursuant to A.R.S. § 42-12154(A), the local County Assessor has the authority to approve agricultural classification for a "nonconforming" property, which is one that does not have the minimum number of acres or animal units on the land, or one that has not been in active commercial agricultural production for seven of the past ten years. However, the statute provides no specific criteria for making such determinations. Therefore, the local County Assessor must use discretion in determining whether or not any specific or unusual circumstances will justify granting qualified agricultural use classification to any "nonconforming" agriculturally used property. Exceptions to the limitations on agricultural use classification, specified more fully in A.R.S. § 42-12152, include:

- Land that is inactive due to "acts of God" for not more than twelve months.
- Land that is in a scheduled crop rotation plan.



- Land that is subject to complete or partial inactivity due to a restriction of use caused by a temporary reduction in, or transfer of, available water within the agricultural operation.
- Grazing land that is inactive due to "reduced carrying capacity" or generally accepted range management practices.
- Land to which a feedlot or dairy operation has been moved will qualify for agricultural classification if it has been moved from a location where it met the requirement of active production "for at least seven of the last ten years."

In addition, the Assessor may continue agricultural classification of **owner-occupied** land if the owner can prove that a change in classification of the land would cause an extreme hardship to the property owner, or if that land has fewer than the minimum number of animal units as prescribed in A.R.S. § 42-12151(3), but the number of animal units equals, as nearly as is possible, the land's carrying capacity.

### **SPECIAL CONSIDERATIONS**

Sometimes the Assessor must consider granting qualified agricultural status to an agricultural operation that would not normally qualify due to size, etc., but which has a level of production comparable to other, typical operations due to exceptional agricultural practices. These techniques may include planting new or experimental crops, harvesting two or more crops of the same variety per year, or the use of other innovative practices. As an example, an agricultural operation may have one or more parcels of cropland which may total less than the twenty acres required by statute. However, through careful cultivation and growing techniques, the land produces a significantly greater yield per acre in comparison to typical cropland in the area which consists of twenty acres or more. The Assessor must also decide whether the farming practices are more consistent with cropland use or with a high-density use, and determine values accordingly.



## **PROPERTY IN TRANSITION**

Encroaching development alone is not a reason to reclassify agriculturally used land. However, it is a reason to review all agriculturally used properties within those areas that may be affected by any proposed or occurring development, in order to verify that they are still being used for qualifying agricultural purposes.

Certain parcels that have previously been used for agricultural purposes may or may not necessarily qualify for current agricultural use classification. The most evident of the nonqualifying factors is the termination of the agricultural operation. But in many instances, the Assessor must consider other factors to determine whether or not an agricultural property has changed use, including:

- An application for rezoning is pending.
- A subdivision plat has been recorded, especially where land is divided into lots of one acre or less.
- There has been a recent installation of survey stakes or roads for nonagricultural development.
- Utility services have been installed.

Any of the foregoing conditions may result in a failure to continue the agricultural operation despite the availability of adequate water or other relevant factors. These few examples are simply for illustrative purposes, and are not intended to be the only factors that should be considered.

If a transitioning parcel maintains an agricultural use (as defined pursuant to A.R.S. § 42-12151), that parcel may be able to continue to be classified as agriculturally used land. If only a portion of that parcel maintains the agricultural use, and if that portion still meets the statutory requirements, that portion may be classified as agriculturally used land. A mixed-use assessment ratio may result. However, any improvement to, or



development of the land that hinders the flow of water to cropland, or that otherwise disrupts the agricultural operation, should be considered grounds to remove the entire parcel from qualifying agricultural status. Again, the individual, current circumstances concerning each agriculturally used property, or portions of it, must be carefully analyzed by the local County Assessor when determining whether or not to grant, or to continue, agricultural use classification, and therefore, to apply the statutory income capitalization valuation procedure to determine the value of the land.

## **REMOVAL OF AGRICULTURAL CLASSIFICATION**

Land that has previously been, or that is currently classified as a qualifying agriculturally used property can cease to be valued using the statutory income capitalization valuation procedure for one of two general reasons. The first is a change in the property's use, wherein the land is no longer in agricultural production.

Pursuant to A.R.S. § 42-12156, "If all or part of the property ceases to qualify as agricultural property under this article [Article 4, Agricultural Classification], the person who owns the property at the time of change shall notify the Assessor within sixty days after the change." The owner is responsible for notifying the Assessor of the discontinuation of agricultural use on the land. If the property is no longer used for agricultural production, the County Assessor should remove the property from agricultural classification and revalue the land using all applicable standard appraisal methods and techniques.

A.R.S. § 42-12157 states that intentionally giving false information on the application form(s), or a failure to provide the notice required under § 42-12156, will cause the following to occur:

- An immediate reclassification of the land to a nonagricultural use and value.
- The owner will become liable for additional taxes on the difference between the nonagricultural full cash value and the full cash value of the property "...for all of the tax years in which the property was classified based on the false information."



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- The owner will also be liable for a twenty-five percent penalty on those additional taxes computed, although the Assessor has the right to abate this penalty for "good cause."

The second general reason for removing qualified agricultural status from a parcel (or parcels) within an agricultural operation is the failure of a new owner to file an application for agricultural use for that parcel (or parcels). This is explained in Chapter 3 under Agricultural Land Use Application. However, pursuant to A.R.S § 42-12153(B), the new owner may appeal the classification regardless of whether or not an application was filed.